

VZCZCXYZ0000  
RR RUEHWEB

DE RUEHRB #0435/01 1491550  
ZNR UUUUU ZZH  
R 291550Z MAY 09  
FM AMEMBASSY RABAT  
TO RUEHC/SECSTATE WASHDC 0153  
INFO RUCNMGH/MAGHREB COLLECTIVE  
RUEHCL/AMCONSUL CASABLANCA 4619  
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS RABAT 000435

SENSITIVE  
SIPDIS

DEPT FOR NEA/MAG - KAAILAU, EEB/TPP/BTA - EGAN

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [ECIN](#) [PREL](#) [MO](#) [AG](#)

SUBJECT: COMMERCE NEAR THE BORDER: NEW DYNAMISM, OLD MINDSETS

REF: A. RABAT 431

[¶](#)B. RABAT 256

[¶](#)C. 08 ALGIERS 1282

[¶](#)11. (U) Summary: Historically oriented both commercially and culturally toward Algeria, the Oriental region of Morocco's Mediterranean coast has abandoned hope of an imminent opening of the border with Algeria, closed since 1994. International trade in the region largely depends on smuggled duty-free goods from Spain and subsidized products from Algeria, along with a range of goods similarly transiting eastward. Some contraband trade has been replaced recently by domestic commerce, as well as some legitimate foreign trade hobbled by cumbersome transshipping. Businesses and administrators in the region keep a somewhat skeptical eye on the Algerian frontier, hoping that propitious conditions in the future will yet make the Oriental "the Strasbourg of the Maghreb." A few cross-border projects including electrical interconnections and a gas pipeline have succeeded on the basis of strong mutual economic interest. On a national scale businesses are focused on expanding trade in the Maghreb but differ as to whether the best engine would be international efforts such as the Eizenstat Initiative, intragovernmental promotion, or efforts by regional business. Regardless of who is responsible for the impasse, little will happen until Algeria agrees to open the border. This cable is the second of two reports on economic development in the Oriental; Ref A focused on domestic development. End Summary.

[¶](#)12. (U) Oujda, the seat of the Oriental region, was historically the transit point between Morocco and Algeria, and retained its eastward orientation for many years following Moroccan and Algerian independence, and the 1963 war between the two. For a brief dozen years in the 1980s and 1990s licit cross-border commerce and travel was a major economic activity for the Oriental, but that golden age of commerce ended abruptly in 1994 with the closure of the land border.

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Evolving Patterns of Contraband  
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[¶](#)13. (U) The proximity of untaxed or subsidized goods across the borders with Spain (the Spanish enclave of Melilla adjoins Nador) and Algeria has historically driven a thriving trade in contraband goods. Jilali Hachemi, regional director of the Moroccan External Commerce Bank (BMCE) told Econoff that the "informal" sector including trade in contraband goods and other unlicensed commercial activity accounted for 60 percent of employment in the Oriental region as recently as a decade ago. Principal commodities in the past have included "duty-free" appliances from Europe, and cement,

iron, manufactured products and subsidized food products and fuel from Algeria.

¶ 14. (U) An Oujda area commercial farm operator told Econoff about an incident several years ago in which a colleague reported seeing his company's branded sacks of potatoes for sale in Oujda markets, in a year in which he had contracted his entire potato crop for export to Spain. The farmer discovered that his potatoes, which he had sold to Spanish buyers at 5 dirhams per kilo (about 62 cents), had been resold to Algerian buyers in Spain and shipped to Algeria, where they were marketed at lower prices thanks to government subsidies. Smugglers bought the potatoes in Algeria and trafficked them across the border back to Oujda, where they were on sale at 3 dirhams per kilo (about 38 cents).

¶ 15. (SBU) In recent years, however, increasing availability of a broader range of consumer goods in Oujda as the region develops better logistics links to the rest of Morocco has dried up the market for smuggled products from Algeria, according to Oujda Chamber of Commerce President and Member of Parliament Driss Houat. The Chamber has conducted surveys of the informal commerce from Algeria and found that it has dropped by half since 2000, added Chamber Director Rachid Slisli. Proof of the waning demand for contraband goods is the 2009 opening in Oujda of big-box retail chains Aswak Assalam and Marjane, similar to Walmart but in the latter case owned by the King's holding company. Not only is business brisk at the stores, Houat asserted, but significant quantities of Marjane shopping bags are found discarded at the Algerian border, indicating that the availability of higher quality and reasonably priced goods in Oujda has reversed the direction of the smuggling. Nevertheless,

smuggling subsidized fuel from Algeria continues to be a high-margin activity, with fuel prices in Algeria approximately half those in Morocco. Oujda's agriculture depends on the cheap fuel to achieve profitability, explained Chourak, and thus the Government of Morocco turns a blind eye to such smuggling as long as the products stay local.

¶ 16. (SBU) Similarly, as tariffs continue to drop under Morocco's free trade agreement with the EU, the smuggling of traditional high-end goods from Melilla has become less lucrative, and the organized networks of smugglers of high-value products have disappeared. Contraband from Melilla now consists primarily of cheap, counterfeit apparel and consumer products manufactured in China, and the smugglers tend to be low-income people on the margins of society carrying small quantities on their person, said Tarek Yahya, the President of Nador's Chamber of Commerce. The GOM's tacit acceptance of the continued smuggling is demonstrated by the observation that Customs checkpoints to intercept contraband are situated not along the borders with Algeria and Melilla, but scores of kilometers to the interior along the roads connecting Oujda or Nador with the rest of Morocco.

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The Strasbourg of the Maghreb

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¶ 17. (SBU) Moroccan government officials and private businesses assert that the opening of the border with Algeria would revolutionize the eastern Oriental, particularly Oujda. Moroccans insist that, in contrast to past patterns in which the Oriental imported a wide variety of goods from Algeria, Oujda is now positioned to ship Moroccan products to eager consumers on the Algerian side of the border. Oujda is the logical commercial center of the Maghreb, claimed Regional Investment Center (CRI) director Farid Chourak, adding that the Government of Morocco has reserved state-owned farmland along the border as the future location of a "Maghrebine logistics zone" for shipping companies in a future with open borders and greater economic integration. The Government of Algeria owns the adjoining farmland across the frontier, he noted, and could use its half to create a true international logistics hub.

¶8. (SBU) Oujda hopes to be the "Strasbourg of the Maghreb" in a more integrated future, Chourak continued, hoping to host Maghrebine institutions such as a Council or Parliament that may be created. Additionally, many contacts told us, Oujda was a leisure destination for Algerian tourists and visitors who enjoyed the "freer lifestyle" during the years of open borders, as testified by the number of fading tourist hotels. Many believe the re-opening of the land crossing would revive Oujda's draw for Algerian visitors.

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Dreaming of Open Borders  
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¶9. (SBU) Chamber of Commerce President Houat insisted that private businesses on both sides of the border (and indeed, across the Maghreb) are eager to open the border. "Everyone is convinced we lose a lot" by the continued border closure, he stated, and the continued closure is a result of the "personal stubbornness" of Algerian President Bouteflika. Moroccan business representatives in the Oriental assessed that a border opening would principally benefit Moroccan exporters, because they have a wider variety of consumer goods to trade, and Algeria's most attractive export, fuel, would be less attractive as a licit commodity, subject to Morocco's heavy fuel taxes. Therefore, they concluded, Algeria is unlikely to budge on opening the border for commerce. Houat stated that the inhabitants of the Oriental bear "all the costs" of Morocco's Sahara policy by being victims of the "economic war" that Algeria imposed through the border closure. However, he asserted, businesses in the region would willingly work with their Algerian counterparts given the chance.

¶10. (SBU) In the meantime, Houat explained, commerce between the two countries is strangled by the complications of finding alternatives to land shipping. Houat told Econoff that he once tried to source aluminum from an Algerian provider for the wire factory he owns in Oujda. He recounted a story of multiple visits to negotiate the sale, each requiring a train trip from Oujda to Casablanca, a flight to Algiers, and a drive from Algiers to the Algerian supplier

located only forty kilometers east of Oujda. After months of working out how to transship the aluminum through a third country, and how to transfer the payment back through third country financial institutions, the first sample batch of aluminum finally arrived ) six months after he had begun his effort to purchase it. "I'll never do business with Algeria again," Houat vowed, until the land border is open.

¶11. (SBU) At a dinner hosted by the president of the regional chapter of the General Confederation of Moroccan Enterprises (CGEM), a dozen businessmen with interests in building, banking, logistics, and agriculture echoed Houat's story, insisting that trade with Algeria around the closed land border is too cumbersome to be profitable. Products sent by ship must nominally pass through an intermediary so that the bill of lading that arrives in Algeria shows a non-Moroccan shipper, they reported, and no Moroccan banks can clear transactions directly with an Algerian bank, requiring payments to pass through a third party as well. The result, they summarized, is that the border closure harms Moroccan and Algerian traders, but benefits the French and Spanish intermediaries who facilitate the trade.

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Slim Pickings from Economic Integration  
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¶12. (SBU) Houat, Chourak, and CGEM members pointed to successful cross-border projects such as the electricity interconnections and natural gas pipeline as evidence that the private sector can drive for specific economic cooperation projects when it is in both countries' interest. However, they assessed, most opportunities for commerce across the border would require land transportation of goods

and people for profitability. Given the difficulties they have experienced trying to conduct business across the closed border, they predicted measures short of border opening were unlikely to promote much economic activity. The only exception, the CGEM interlocutors proposed, would be the utility of allowing Moroccan banks to establish branches in Algeria, and vice versa, to simplify the cumbersome financial transactions they had described as part of any efforts at trade with Algeria.

**¶13.** (SBU) Representatives of a variety of Moroccan business doing business with Algeria and other Maghreb countries told Econoff in Casablanca that there were several ways to improve Maghreb economic integration. Ninety percent of the businesses surveyed cited the closed land border as the foremost impediment to trade flows within the Maghreb. Seventy percent of the companies reported that they were already trading with Algeria, Tunisia and Libya, but highlighted the inefficiencies and additional costs that arise from the closed border. The surveyed business urged that the USG play a role in facilitating dialogue between the governments of Morocco and Algeria, and press to open the border. Morocco's phosphate parastatal monopoly OCP Groupe told Econoff that the Eizenstat Initiative was an ideal vehicle for promoting integration. Others, however, including CGEM Vice president of Maghreb Affairs Hamad Kesal, opined that events such as the recent "First Forum of Maghrebine Businessmen" held in Algiers are more effective. "Bringing business executives from North Africa together will be the catalyst for integration," Kesal stated. However, the Director General of the Casablanca Stock Exchange assessed that while the Algiers meeting was a good first step, true economic integration will require political involvement by the governments.

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Still a Long Way to Go  
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**¶14.** (SBU) Comment: While the economic promise of economic integration in the Maghreb tantalizes Oriental inhabitants, as well as the rest of the Kingdom, there is little optimism among Morocco's business community that anything short of a reopening of the Algeria-Morocco border would significantly affect commerce in the region. The benefits of regional trade are apparent to all parties, but private sector actors do not believe they can drive economic integration alone without political participation from all the Maghreb governments (Ref B). Moroccans remain convinced that the closure of the border is simply a manifestation of bad will on the part of the Algerian leadership, and seem to be equally convinced that the USG could convince Algeria to reverse course if we tried hard enough. While Post

wholeheartedly supports efforts to break the logjam through step-by-step economic integration, we must recognize that the logistical impediments to commerce remain difficult to overcome, and most businesses are skeptical that any effort will come to fruition absent a change of heart in the leadership in Algiers.

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